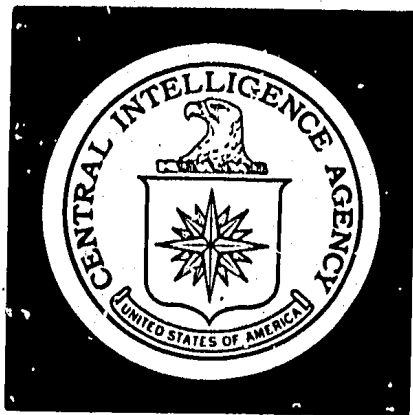


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Dimensions Of Zambia's Copper Mine Disaster

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ER IM 70-142
October 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1970

INTELLIGENCE MEMORANDUM

Dimensions Of Zambia's Copper Mine DisasterIntroduction

On 25 September 1970 a major cave-in shut down Mufulira, Zambia's second largest copper mine. Operations are scheduled to resume next month, but full production will not be reached for some time. Because copper provides about 60% of Zambia's revenues, the loss is considerable. This memorandum describes the situation at the mine, assesses the impact of potential production losses on Zambia, and comments on the likely effect this will have on world copper prices.

Mufulira Mine

1. Mufulira, the second largest copper producer in Zambia, provides more tax revenue than any other mine. In the 12 months ending June 1970, the mine produced about 170,000 long tons* of finished copper -- or about 25% of Zambia's output. After nearly 40 years of operation, Mufulira still has copper reserves worth about \$6 billion at current prices. It is Zambia's most efficient and profitable mine and has some of the highest quality ores in the country. A concentrator and refinery also are associated with the mine.

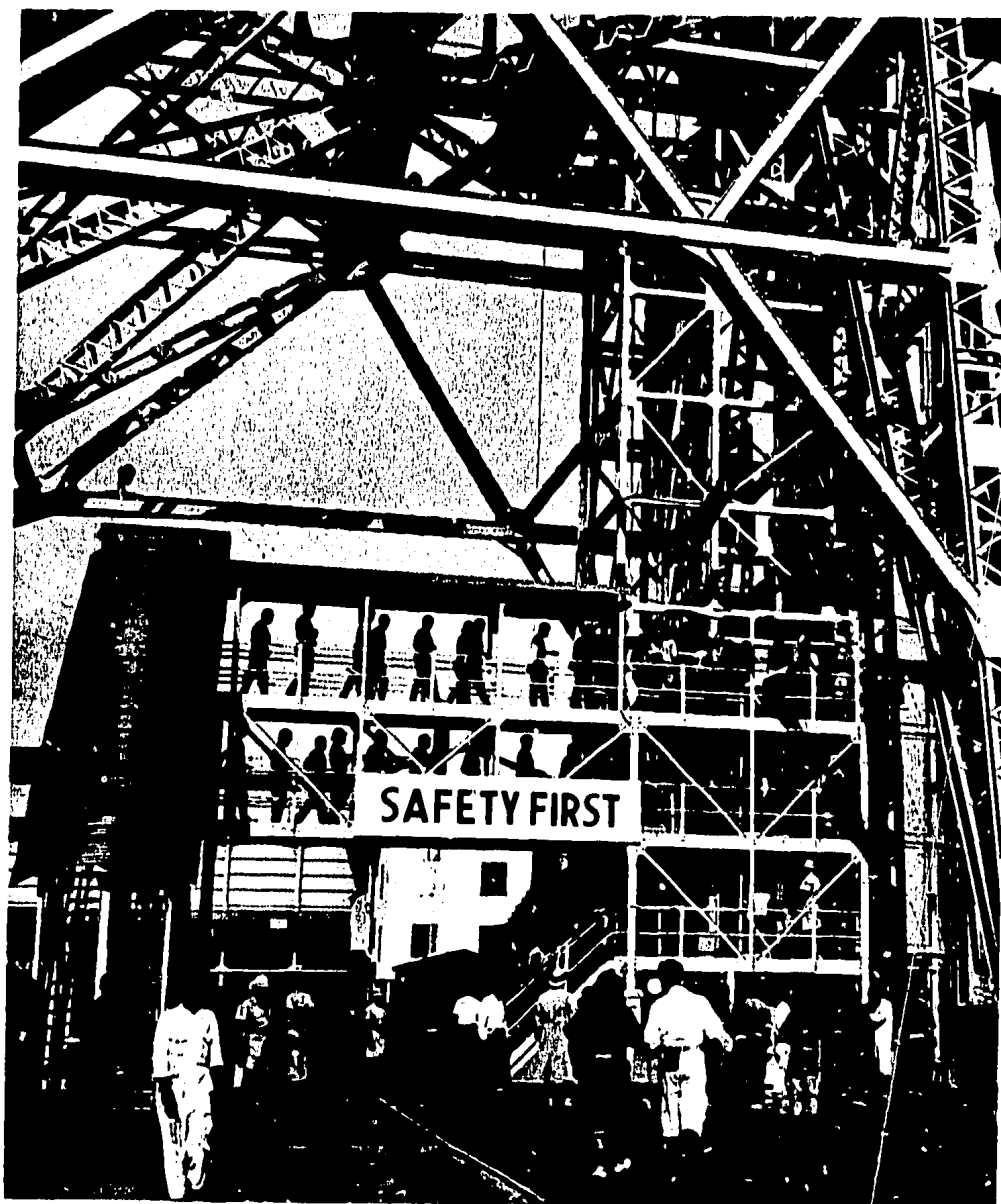
* All tonnages in this memorandum are long tons.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

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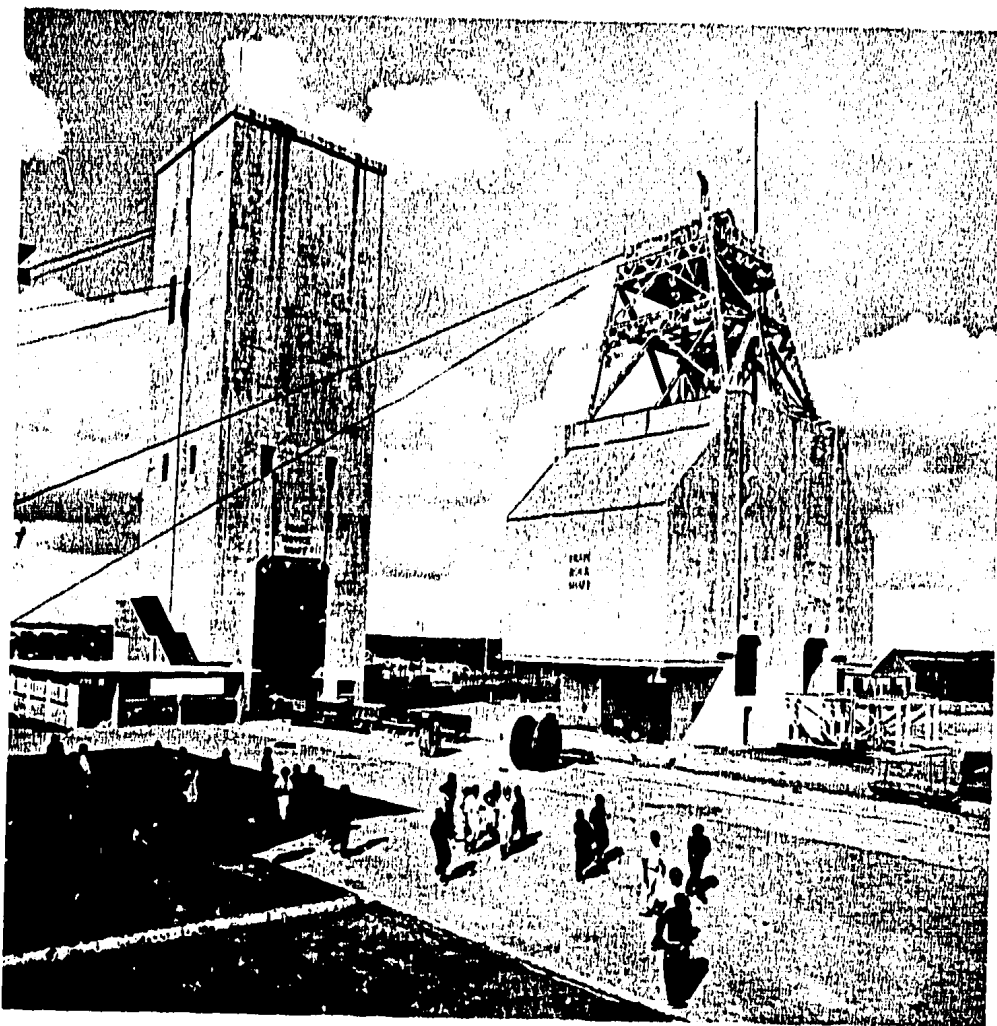


Mufulira: Underground workers enter a four-deck cage to go on shift

2. Mufulira is the largest of six Zambian mines formerly belonging to the Roan Selection Trust Group (RST). Following Lusaka's nationalization of the copper industry on 1 January 1970, RST was renamed Roan Consolidated Mines (RCM), and the government became the major shareholder with a 51% interest. The US firm American Metal Climax is the principle minority shareholder with a 20% interest, and the restructured Zambian Anglo American Corporation, which along with RST constituted Zambia's pre-nationalization mining industry, owns another 12%.

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Service shafts of the Mufulira mine

The remaining shares are held by private stockholders.

Effect of the Cave-In

3. Although the cause of the cave-in is still unknown, large volumes of sand, mud, and water filled part of the mine from the 3,420-foot level to the 1,650-foot level. A new section of the mine in the process of being developed apparently escaped damage; an older and currently more productive section received most of the damage. Between 80 and 90 personnel are unaccounted for. Rescue teams from other mines are working to rescue the trapped men, but little hope for their survival has been given. During the rescue operations, all mining activity and repair work at the mine has stopped.

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4. The cave-in has halted Mufulira operations. Production is slated to begin some time in November and should amount to 3,000 tons per month by 31 December. By 30 June 1971 the company expects output to reach 75% of the production of 14,000 tons per month before the cave-in. Even if this schedule is met, a potential 80,000 tons of finished copper will have been lost through June 1971. Thus far no date has been given for reaching full production, nor have estimates been made of the cost required to restore full capacity or the feasibility of carrying out previously planned expansion during the next five years.

5. Ore stockpiles had not been accumulated at the mine, because it operates on a day-to-day basis. Moreover, new ore lodes in other company mines or in the undamaged section of Mufulira cannot be brought into production quickly. While RCM has a three-month stock of refined copper, which is being used to fill existing 1970 orders, the company is accepting no new orders for 1971.

Impact on Revenues

6. Because of its 51% ownership in the mine and because it receives about three-fourths of gross profits from the copper industry in taxes, the government will suffer substantial losses. At the current price of about 56 cents per pound, 80,000 tons of finished copper would have a market value of about \$100 million. Estimated 1970 production costs plus freight charges would take some \$47 million, leaving \$53 million in gross profits. Of this total, Zambia would have received \$41 million -- \$34 million in mineral and income taxes and \$7 million as its share of net profits. RCM would have received some \$7 million as its share of the profits and management fees for running the mines. The remaining \$5 million would have been set aside for depreciation and capital allowance.

Some Implications

7. Fortunately for Zambia, its foreign exchange reserves will allow it to weather the loss of revenues. Because of high prices during the past year,

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Zambia was able to increase its foreign exchange reserves to almost \$450 million in August 1970, second only to South Africa among sub-Saharan countries. In all likelihood, the coming loss in production will mean mainly that foreign exchange reserves will not increase for some time.

8. Thus far, the impact of the Mufulira disaster on the London Metal Exchange, where copper prices have been weak in recent months, has been slight. When the news first broke, the market reacted by firming up otherwise weak copper prices, but no gains were recorded. With world copper surpluses predicted for the next several years, the loss of what amounts to about 10% of one year's Zambian copper output -- about 2% of Free World mine output -- may well have relatively little effect on the world copper market, unless, of course, shortfalls occur elsewhere.

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